

PUBLIC DISCLOSURE

SEPTEMBER 7, 2010

**MORTGAGE LENDER COMMUNITY INVESTMENT
PERFORMANCE EVALUATION**

**MORTGAGE FINANCIAL, INC.
MC 2644**

**170 MAIN STREET, SUITE 108
TEWKSBURY, MASSACHUSETTS 01876**

**DIVISION OF BANKS
1000 WASHINGTON STREET
BOSTON, MA 02118**

NOTE:	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this mortgage lender. The rating assigned to this mortgage lender does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this mortgage lender.
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GENERAL INFORMATION

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' ("Division") regulation 209 CMR 54.00, Mortgage Lender Community Investment ("MLCI"), require the Division to use its authority, when examining mortgage lenders subject to its supervision who have made 50 or more home mortgage loans in the last calendar year, to assess a mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth, including low- and moderate-income neighborhoods and individuals, consistent with the safe and sound operation of the mortgage lender. Upon conclusion of such examination, the Division must prepare a written evaluation of the mortgage lender's record of meeting the credit needs of the Commonwealth.

This document is an evaluation of the MLCI performance of **Mortgage Financial, Inc. (or "Mortgage Financial")** prepared by the Division, the mortgage lender's supervisory agency, as of **September 7, 2010**.

SCOPE OF EXAMINATION

An onsite evaluation was conducted using examination procedures, as defined by MLCI. A review of the Division's records, as well as the mortgage lender's public MLCI file, did not reveal any complaints relating to Mortgage Financial's MLCI performance.

The MLCI examination included a comprehensive review and analysis, as applicable, of Mortgage Financial's:

- (a) origination of loans and other efforts to assist low and moderate income residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the lender's history with similarly situated borrowers, the availability of mortgage loan products suitable for such borrowers, and consistency with safe and sound business practices;
- (b) origination of loans that show an undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units;
- (c) efforts working with delinquent residential mortgage customers to facilitate a resolution of the delinquency; and
- (d) other efforts, including public notice of the scheduling of examinations and the right of interested parties to submit written comments relative to any such examination to the Commissioner, as, in the judgment of the Commissioner, reasonably bear upon the extent to which a mortgage lender is complying with the requirements of fair lending laws and helping to meet the mortgage loan credit needs of communities in the Commonwealth.

MLCI examination procedures were used to evaluate Mortgage Financial's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Mortgage Financial's lending and community development activities for the period of January 2008 through December 2009, unless otherwise noted. The data and applicable timeframes for the Lending Test and the Service Test are discussed below.

The Lending Test evaluates the Mortgage Lender's community investment performance pursuant to the following five criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, fair lending, and loss of affordable housing.

The MLCI evaluation includes an analysis of the mortgage loans reportable under the Home Mortgage Disclosure Act ("HMDA") for 2008 and 2009. The residential loan data was obtained from the Loan Application Registers ("LAR") maintained by Mortgage Financial pursuant to HMDA.

Home mortgage lending for 2008 and 2009 is presented in the following tables: geographic distribution, lending to borrowers of different incomes and the minority application flow. Comparative analysis is provided for the mortgage lender's 2008 lending performance as this was the most recent year for which aggregate HMDA lending data was available during the evaluation and 2009 data became available prior to issuance of the evaluation. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders that originated loans in Massachusetts.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the MLCI examination also reflects an in depth review of the entity's mortgage lending using qualitative analysis, which includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks and through local Registries of Deeds and through other sources available to the examination team. The examination included inspection of individual loan files for review of compliance with consumer protection provisions and scrutiny of these files for the occurrence of disparate treatment based on a prohibited basis.

The Service Test evaluates the mortgage lender's record of helping to meet mortgage credit needs by analyzing the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products, the extent and innovativeness of its community development services, and, if applicable, loss mitigation services to modify loans and/or efforts to keep delinquent home borrowers in their homes. The relative period for evaluating the lender's Service Test is through the start date of the evaluation.

MORTGAGE LENDER'S MLCI RATING: This Mortgage Lender is rated "Satisfactory"

This "Satisfactory" rating is based upon:

- The geographic distribution of the lender's loans reflects an adequate distribution in low and moderate-income Census tracts given the volume of originations and the lender's product lines.
- The distribution of borrowers reflects, given the demographics of Massachusetts, a reasonable record of serving the credit needs among individuals of different income levels, including low- and moderate-income.
- The mortgage lender offers a limited number of flexible lending programs to the customers it serves.
- The mortgage lender's Community Development Services were considered to need improvement at this time.
- Fair lending policies and practices are considered reasonable. No complaints were received during the evaluation period.

PERFORMANCE CONTEXT

Description of Mortgage Lender

Mortgage Financial, Inc. was established in 1987, as a subchapter "S" corporation under the US Internal Revenue Code for the purpose of operating as a mortgage lender and a mortgage broker. The licensee is currently a wholly-owned subsidiary of Mortgage Financial Services Business Trust (the Parent). Mortgage Financial is currently engaged in the origination and sale of first- and second-lien residential mortgage loans, secured primarily by one-to-four family residential properties to consumers of sound credit quality. Construction and equity loans are also offered. Mortgage Financial is licensed in Massachusetts, New Hampshire, Maine, Vermont, Florida, and Connecticut. The licensee's corporate office is located at 170 Main Street in Tewksbury, Massachusetts. The licensee operates branch offices in Tewksbury, Danvers, Hingham, and Plymouth, Massachusetts. Mortgage Financial originates business through customer referrals, real-estate brokers, and financial planners. The Owner is responsible for the day-to-day operations of the licensee and also oversees quality control. The Senior Vice President is responsible for loan origination. Mortgage Financial employs various other managers, loan officers, and support staff. Mortgage Financial is an FHA correspondent approved under the FHA Direct Endorsement Program, and is a member of the Massachusetts Mortgage Bankers Association.

Loan originations are processed and documented at the mortgage lender's operations office in Tewksbury, Massachusetts. Approved loans are funded through a warehouse line of credit with Ally Bank and sold to secondary market investors. Mortgages are sold without recourse and servicing rights released.

For the examination period, 2008 and 2009, Mortgage Financial originated a total of 2,301 loans totaling \$666 million in Massachusetts.

Demographic Information

The MLCI regulation requires mortgage lenders to be evaluated on their performance within the Commonwealth of Massachusetts. Demographic data is provided below to offer contextual overviews of economic climate along with housing and population characteristics for the Commonwealth of Massachusetts.

DEMOGRAPHIC INFORMATION*						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A
Geographies (Census Tracts)	1,361	8.4	21.7	46.1	23.4	0.4
Population by Geography	6,349,097	5.8	20.5	47.6	26.0	0.1
Owner-Occupied Housing by Geography	1,508,248	1.6	12.8	54.0	31.6	0.0
Family Distribution by Income Level	1,587,537	20.5	17.7	22.3	39.5	0.0
Distribution of Low and Moderate Income Families throughout AA Geographies	606,419	10.0	29.4	46.2	14.4	0.0
Median Family Income		\$65,318	Median Housing			
2009 HUD Adjusted Median Family Income		\$82,684	Value		\$209,519	
Households Below Poverty Level		9.8%	Unemployment Rate		9.9%**	

*Source: 2000 US Census

**as of 4/2010

Low-income is defined as individual income that is less than 50 percent of the area median income. Moderate-income is defined as individual income that is at least 50 percent and less than 80 percent of the area median income. Middle-income is defined as individual income that is at least 80 percent and less than 120 percent of the area median income. Upper-income is defined as individual income that is more than 120 percent of the area median income.

There are 2.4 million households in the Commonwealth with a median household income of \$53,686 according to the 2000 Census. Over 40 percent of the households are classified as low and moderate-income. In addition, 9.8 percent of the total numbers of households are living below the poverty level. Individuals in these categories may find it challenging to qualify for traditional mortgage loan products.

Households classified as “families” total slightly over 1.5 million. Of all family households 20.5 percent are low income; 17.7 percent are moderate income; 23.3 percent are middle income; and 39.5 percent are upper income. The median family income according to the 2000 census was \$65,318. The Housing and Urban Development (“HUD”) adjusted median family income is \$82,684. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts contains 1,361 Census tracts. Of these, 114 or 8.4 percent are low-income; 295 or 21.7 percent are moderate-income; 628 or 46.1 percent are middle-income; 319 or 23.4 percent are upper-income; and 5 or 0.4 are NA or have no income designation. The five Census tracts with no income designation are located in Bridgewater (a correctional facility), Boston (islands in Boston Harbor), Amherst (University of Massachusetts campus), Harvard (Fort Devens), and Grafton (Tufts Veterinary School). These Census tracts contain no housing units and will not be included in this evaluation since they provide no lending opportunities.

The median housing value for Massachusetts was \$209,519 according to the 2000 Census. However, recent figures from the Warren Group, publishers of the Banker’s and Tradesman, show the median price for a single-family increased to \$345,000 in 2007 and experienced a drop of 11.6 percent to \$305,000 in 2008. Fluctuating housing values have a direct effect in mortgage affordability and the types of financial products adequate for homeowners and property buyers.

The unemployment rate for the state of Massachusetts as of April 2010 was 9.9 percent. This represents a drastic increase from 2007 when the unemployment rate stood at 4.5 percent and the end of 2008 when the unemployment rate stood at 6.4 percent. A consistent increase in job losses may impact borrowers’ ability to remain current on mortgage loan obligations and correlates with high delinquency and rising default rates.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Mortgage Financial Lending Test performance was rated an overall “Satisfactory.” Mortgage Financial’s lending efforts are rated under the five performance criteria: Geographic Distribution, Borrower Characteristics, Innovative or Flexible Lending Practices, Fair Lending Policies and Procedures, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of Mortgage Financial.

I. Geographic Distribution

The geographic distribution of loans was reviewed to assess how Mortgage Financial is addressing the credit needs throughout the Commonwealth of Massachusetts’ low-, moderate-, middle-, and upper-income census tracts.

Mortgage Financial’s distribution of lending in the Commonwealth was reasonable when compared to the demographics and aggregate lending data. The table below shows the distribution of HMDA-reportable loans by Census tract income.

Distribution of HMDA Loans by Income Category of the Census Tract							
Census Tract Income Level	% Total Owner-Occupied Housing Units	Mortgage Financial 2008		Aggregate Lending Data (% of #) 2008	Mortgage Financial 2009		Aggregate Lending Data (% of #) 2009
		#	%		#	%	
Low	1.6	9	1.2	2.2	12	0.8	1.5
Moderate	12.8	74	9.5	14.2	134	8.8	10.7
Middle	54.0	424	54.7	51.9	751	49.2	50.8
Upper	31.6	268	34.6	31.7	629	41.2	37.0
Total	100.0	775	100.0	100.0	1,526	100.0	100.0

Source: 2008 and 2009 HMDA Data and 2000 U.S. Census

Mortgage Financial’s distribution of lending for 2008 was in line with the percentage of owner-occupied housing in each of the categories. However, as a percentage of the total lending, the lender did not achieve parity with the aggregate with regard to lending in low- and moderate-income Census tracts. Additional review revealed there was a concentration of lending in Eastern Massachusetts, not changing the overall performance.

The volume of loans almost doubled in 2009, with the greatest increase in both numbers and percentage of total lending in the middle- and upper-income Census tracts. However, it is noted that lending in moderate-income Census tracts increased by approximately 80% and the gap between this lender and the aggregate narrowed, reflecting a positive trend.

Given the above information, Mortgage Financial’s performance in this category is considered reasonable at this time.

II. Borrower Characteristics

The distribution of loans by borrower income levels was reviewed to determine the extent to which the mortgage lender is addressing the credit needs of the Commonwealth’s residents. Mortgage Financial has a reasonable record of serving the mortgage credit needs of borrowers of different income levels based on the area’s demographics and a comparison to aggregate lending data in Massachusetts.

The following table shows, by number, HMDA reportable loans to low-, moderate-, middle- and upper-income borrowers in comparison to the aggregate and the percentage of total families within the Commonwealth in each respective income group.

Distribution of HMDA Loans by Borrower Income							
Median Family Income Level	% Families	Mortgage Financial 2008		Aggregate Lending Data (% of #) 2008	Mortgage Financial 2009		Aggregate Lending Data (% of #) 2009
		#	%		#	%	
Low	20.5	24	3.1	5.0	52	3.4	5.1
Moderate	17.7	131	16.9	16.9	233	15.3	16.6
Middle	22.3	233	30.1	23.8	435	28.5	23.7
Upper	39.5	376	48.5	37.9	755	49.5	39.6
NA*	0.0	11	1.4	16.4	51	3.3	15.0
Total	100.0	775	100.0	100.0	1,526	100.0	100.0

Source: 2008 and 2009 HMDA Data and 2000 U.S. Census, * Income Not Available

Overall lending for Mortgage Financial showed an increase of approximately 97 percent with an 84 percent increase to low- to moderate-income borrowers. However, there was a slight decrease in lending in these categories as a percentage of total lending. This is partially accounted for by the increase in lending to borrowers who were not required to provide income information. FHA offers a mortgage loan refinance product which requires minimal documentation from existing mortgagors who are not required to disclose an income. It is conceivable that this flexible loan benefited each income category of borrowers proportionately and reflects Mortgage Financial's willingness to lend to borrowers of all income categories

Given the above information, Mortgage Financial's performance in this category is considered reasonable at this time.

III. Innovative or Flexible Lending Practices

Mortgage Financial offers a limited number of innovative and flexible products to address the credit needs of low- and moderate-income individuals or geographies.

During 2008 and 2009, Mortgage Financial closed 109 loans with MassHousing totaling \$24,083,389. From January 1, 2010 through August 31, 2010, Mortgage Financial closed 26 mortgages with MassHousing totaling \$4,489,571.

The lender is endorsed by HUD to underwrite FHA insured mortgages. Mortgage Financial's current product mix includes Fannie Mae (FNMC), Freddie Mac (FHLMC) and FHA loans. All loan products are originated under investor guidelines and requirements, as well as adherence to state legal requirements. The variety of FHA products offered by Mortgage Financial provide competitive interest rates and require smaller down payments for low- and moderate-income first time homebuyers and existing homeowners. During 2008 and 2009, Mortgage Financial closed 340 FHA loans totaling \$89,850,552. From January 1, 2010 through August 31, 2010, Mortgage Financial closed 132 FHA loans totaling \$38,855,693.

IV. Fair Lending

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-103 and Regulatory Bulletin 5.3-101. The mortgage lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, review of written policies and procedures, interviews with mortgage lender personnel, and individual file review.

Mortgage Financial's compliance with the laws relating to discrimination and other illegal credit practices was reviewed. The fair lending review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. No evidence of discriminatory or other illegal credit practices was identified.

A second review is in place where all potentially denied applications are reviewed by the Operations Manager and then by the President.

Mortgage Financial's policies and procedures are distributed to all employees on an inter-departmental level. The anti-predatory lending policy is enforced on both retail and wholesale business platforms and all service delivery channels.

Mortgage Financial has instituted a corporate wide technology system and workflow process to ensure compliance to state-specific consumer disclosures and federal fair lending laws.

The most recent Fair Lending training was held in August 2010.

Upon conclusion of the Fair Lending review, the Division's examination found no evidence of disparate treatment.

MINORITY APPLICATION FLOW

For 2008 and 2009, Mortgage Financial received 2,695 HMDA reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 90 or 3.3 percent were received from minority applicants, of which 79 or 87.8 percent resulted in originations. Mortgage Financial received 25 or 0.9 percent of HMDA reportable applications from ethnic groups of Hispanic origin within its assessment area of which 17 or 68.0 percent were originated.

The minority population in the Commonwealth is at 18.1 percent. Mortgage Financial's level of lending was compared with that of the aggregate's lending performance levels for 2008 and 2009, and the area's demographics. In 2008, the licensee received a total of 3.3 percent of its applications from racial minorities which was below the aggregate at 8.4 percent. The lender also received 1.5 percent of its applications from ethnic minorities, which was also below the aggregate at 4.7 percent.

Refer to the following table for information on the mortgage lender's minority application flow as well as a comparison to the aggregate lenders throughout the Commonwealth of Massachusetts. The comparison of this data assists in deriving reasonable expectations for the rate of applications the mortgage lender received from minority applicants.

MINORITY APPLICATION FLOW								
RACE	Mortgage Financial 2008		2008 Aggregate Data		Mortgage Financial 2009		2009 Aggregate Data	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	1	0.1	690	0.2	0	0.0	730	0.2
<i>Asian</i>	19	2.1	11,805	3.5	34	1.9	19,944	4.1
<i>Black/ African American</i>	6	0.7	11,753	3.5	11	0.6	10,024	2.0
<i>Hawaiian/Pac Isl.</i>	0	0.0	641	0.2	2	0.1	554	.1
<i>2 or more Minority</i>	0	0.0	280	0.1	0	0.0	230	.1
<i>Joint Race (White/Minority)</i>	4	0.4	3,200	0.9	13	0.7	4,939	1.0
Total Minority	30	3.3	28,369	8.4	60	3.3	36,421	7.5
<i>White</i>	874	96.3	234,324	69.6	1,723	96.4	340,923	69.5
<i>Race Not Available</i>	4	0.4	73,908	22.0	4	0.3	112,611	23.0
Total	908	100.0	336,601	100.0	1,787	100.0	489,955	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	13	1.5	13,250	3.9	12	0.6	11,445	2.3
<i>Not Hispanic or Latino</i>	890	98.0	246,491	73.2	1,765	98.8	361,096	73.7
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	4	0.4	2,642	0.8	9	0.5	3,653	0.8
<i>Ethnicity Not Available</i>	1	0.1	74,218	22.1	1	0.1	113,761	23.2
Total	908	100.0	336,601	100.0	1,787	100.0	489,955	100.0

Source: 2008 and 2009 HMDA Data

Lending to both racial and ethnic minorities is substantially below the aggregate. It is noted that the number of applications from racial minorities doubled from 2008 to 2009.

V. Loss of Affordable Housing

This review concentrated on the suitability and sustainability of mortgage loans originated by Mortgage Financial by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans were tracked for their status through local Registries of Deeds and other available public records of foreclosure filings.

An extensive review of information and documentation, from both internal and external sources as described above, did not reveal lending practices or products that showed an undue concentration or a systematic pattern of lending, including a pattern of early payment defaults, resulting in the loss of affordable housing units. Further, delinquency rates were found to be consistent with industry averages.

SERVICE TEST

The service test evaluates a mortgage lender's record of helping to meet the mortgage credit needs in the Commonwealth by analyzing both the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products; the extent and innovativeness of its community development services; and loss mitigation services to modify loans or otherwise keep delinquent home loan borrowers in their homes. Community development services must benefit the Commonwealth or a broader regional area that includes the Commonwealth.

Mortgage Financial's Service Test performance was determined to be rated "Needs to Improve" at this time.

Mortgage Lending Services

Mortgage Financial is a retail lender in Massachusetts that also acts as a broker for Massachusetts loans. Through these mortgage lender and broker relationships, Mortgage Financial offers a variety of FHA and flexible lending products. The mortgage lender has four branches located throughout Massachusetts. Mortgage Financial receives applications from its team of licensed loan originators and does minimal advertising.

As Mortgage Financial does not service mortgage loans, it would not work directly with delinquent borrowers. Therefore, this review would not include an evaluation of loan mitigation and modification efforts as the mortgage lender would not be accountable for such action.

Community Development Services

A community development service is a service that:

- (a) has as its primary purpose community development; and
- (b) is related to the provision of financial services, including technical services

The Commissioner evaluates community development services pursuant to the following criteria:

- (a) the extent to which the mortgage lender provides community development services; and
- (b) the innovativeness and responsiveness of community development services.

Mortgage Financial does not have an adequate level of qualified community development services.

There were no community development services identified during the examination.

Mortgage Financial does not participate in any community development services throughout Massachusetts, hence strong focus and a pro-active commitment on the part of management should be employed in community development activities or investments that meet the definition of community development under the MLCI regulation.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws chapter 255E, section 8, and 209 CMR 54.00, the Mortgage Lender Community Investment (MLCI) regulation, require all mortgage lenders to take the following actions within 30 business days of receipt of the MLCI evaluation of their mortgage lender:

- 1) Make its most current MLCI performance evaluation available to the public;
- 2) Provide a copy of its current evaluation to the public, upon request. In connection with this, Mortgage Financial, Inc. is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the mortgage lender's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The mortgage lender is encouraged to include its response to the evaluation in its MLCI public file.

The Division of Banks will publish the mortgage lender's Public Disclosure on its website no sooner than 30 days after the issuance of the Public Disclosure.